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**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Southern California Edison Company's Application For Approval of Embedded Energy Efficiency Pilot Programs for 2007-2008.	Application 07-01-024 (Filed January 16, 2007)
Application of Pacific Gas and Electric Company Seeking Approval of Water-Embedded Energy Savings Pilot Program.	Application 07-01-026 (Filed January 16, 2007)
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**COMMENTS OF THE NATURAL RESOURCES DEFENSE COUNCIL (NRDC)  
ON THE PROPOSED "ORDER APPROVING PILOT WATER  
CONSERVATION PROGRAMS WITHIN THE ENERGY UTILITIES' ENERGY  
EFFICIENCY PROGRAMS"**

December 5, 2007

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**I. Introduction and Summary**

The Natural Resources Defense Council ("NRDC") respectfully submits these opening comments, in accordance with Rules 14.3, 1.9, and 1.10 of the California Public Utilities Commission's (CPUC or Commission) Rules of Practice and Procedure, on ALJ Weissman's Proposed Decision ("PD"), "Order Approving Pilot Water Conservation Programs Within the Energy Utilities' Energy Efficiency Programs," dated November 15,

2007, and in accordance with the PD's provision<sup>1</sup> allowing comments that address its merits in addition to the normal scope of comments on proposed decisions and its waiver of page limits. NRDC is a non-profit membership organization with a long-standing interest in minimizing the societal costs of the reliable energy and water services that a healthy California economy needs. In this proceeding, we focus on representing our more than 124,000 California members' interest in receiving affordable energy and water services and reducing the environmental impacts of California's energy and water consumption.

As we stated in our July 18, 2007 comments on the utilities' proposals, NRDC is confident that the Commission embarked on this proceeding in full recognition of the fact that new ground will need to be broken if the effort to create strategies and programs to deliver cost-effective energy savings from reform of water use practices is to achieve broad and sustained success. Such success requires that the achievable potential for cost-effective water-energy savings be rigorously quantified; that programs, studies, policies and rules be developed that provide the foundation for realizing this potential; and that the utilities, their partners, the Commission, and the other stakeholders in this proceeding work diligently and collaboratively to realize this potential. The programs approved by the Commission in this proceeding should reflect these broader goals.

In this context, NRDC strongly supports the PD, with several qualifications described below that NRDC believes would build on and strengthen the course of action set out in the PD and better align the PD with the above-mentioned requirements for success. NRDC commends the ALJ and the Energy Division staff for their hard work in

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<sup>1</sup> PD at 85-86.

this proceeding and on the PD specifically. We are pleased that the PD approves most of the utilities' proposed pilot programs and associated studies, as we view this as an important step in capturing all cost-effective energy efficiency in the state.

We are most enthusiastic about the PD's additions of two foundational studies—the Statewide/Regional Water-Energy Relationship Study and the Water Agency/Function Component Study—that the Commission's Energy Division will be undertaking. As the PD correctly observes, the understanding that will be gained by these studies is a prerequisite to the sound development of full-scale cost-effective programs that save energy through water use reform.<sup>2</sup> This is why we indicated in our opening comments on the utilities' applications that the studies suggested by the utilities in Appendix A of the PD may be the most important aspect of the utilities' proposals in this proceeding.<sup>3</sup> That the Commission has decided to take responsibility for these studies, and has described them in such detail in the PD, effectively resolves the concern we expressed in our July comments that the foundational studies not be tied to the utilities' other efforts so that possible delays in other areas would not delay progress on the foundational studies.

We are also very pleased that the PD indicates the Commission's intention to continue to develop the cost-effectiveness calculator so that it has the capability to analyze the cost effectiveness of savings “from the multiple perspectives of a customer, a single energy utility, multiple energy utilities, multiple water and energy utilities, statewide economic potential, and overall society.”<sup>4</sup> We believe that this range of

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<sup>2</sup> PD at 81-82.

<sup>3</sup> July 18, 2007 NRDC Comments at 9.

<sup>4</sup> PD at 78.

analytic capabilities is essential to capturing the full range of water and energy savings and costs associated with individual energy-water efficiency measures and programs. NRDC urges the Commission to move forward expeditiously with this further development of the cost-effectiveness calculator.

NRDC believes that certain modest changes to the PD would significantly strengthen it as the basis for embarking on the implementation phase of this proceeding, particularly with respect to the need for continued diligent collaborative efforts among the Commission's staff, the utilities, and parties to this proceeding. These recommended changes are as follows.

1. The Commission should order the creation of a stakeholder advisory group to advise on the various Commission-approved studies, particularly the studies that are foundational to this and possible subsequent proceedings in the water-energy efficiency area, *i.e.*, the Energy Division's Statewide/Regional Water-Energy Relationship Study and Water Agency/Function Component Study, the utilities' Load Profile Study, and the Energy Division's further development of the cost-effectiveness calculator. Should the Commission adopt this recommendation, the PD should also be modified such that this proceeding remains open for the purpose of administering this stakeholder advisory process.
2. The PD should be modified to direct the Energy Division and the utilities to use the question and answer set ("Q&A set") in the PD's Appendix A as a guide in finalizing the design of and implementing the various pilot programs and studies approved by the PD. Appendix A describes an overall set of requirements for a comprehensive water embedded energy savings strategy whereby the technical, economic, and programmatic potential for such savings can be quantified.
3. The PD should be clarified to say that the Commission's overriding commitment and legal requirement in this and subsequent related proceedings is to pursue all cost-effective water-energy efficiency strategies, not just those strategies that may *increase* the overall cost-effectiveness of utilities' energy efficiency program

portfolios.

In the Appendix to these comments, NRDC proposes changes in the PD's findings of fact, conclusions of law, and ordering paragraphs to support these recommendations. With respect to various other changes the PD makes to the utility applications, at this point NRDC reserves comment, as we prefer to let the sponsoring utilities respond first to these changes. NRDC may address certain of these changes in reply comments.

**II. The Commission Should Create a Stakeholder Advisory Group for the Utilities' and the Energy Division's Foundational Studies and the Energy Division's Further Development of the Cost-Effectiveness Calculator.**

Both the utilities' applications and the PD describe an important role for advisory groups in the design and implementation of the various studies and pilot programs. As noted in Appendix A of the PD, the utilities have proposed that the foundational studies, which we believe are a critical aspect of this proceeding, be overseen by a Blue Ribbon Panel.<sup>5</sup> This panel would finalize study designs and oversee the studies themselves. It would also offer guidance in coordinating the interrelationships between the studies on one hand and the pilot programs on the other. The PD notes that the utilities' proposed EM&V plan "include[s] one or more Project Advisory Committees to provide input and support during the course of the studies."<sup>6</sup> The utilities also propose that a single advisory panel be established "to provide substantial input on overall research design, specific issues to be addressed, and research methods."<sup>7</sup>

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<sup>5</sup> PD, Appendix A at 1.

<sup>6</sup> PD at 46.

<sup>7</sup> See, e.g., *Amended Supplemental Testimony of Southern California Edison Company Supporting Application for Approval of Embedded Energy Efficiency Water Pilot Programs for 2007-2008*, July 11, 2007, at A-11.

In approving certain of the utilities' proposed studies, the PD does not explicitly authorize the establishment of an advisory group or groups to guide the studies. In at least one case – the embedded energy in water methodology study – the PD acknowledges that it "...should be the product of a coordinated effort among stakeholders in conjunction with the pilot programs."<sup>8</sup> However, the PD does not explicitly call for a formal stakeholder/expert advisory process whereby this kind of coordination would be ensured, not only for the embedded energy study but for all the studies approved by the PD, including the Energy Division's further development of the cost-effectiveness calculator.

NRDC's July 18, 2007 comments stressed the importance of an advisory body to advise the research investigators and help to guide the entire set of studies, and to coordinate both the studies and the utilities' individual pilot programs with each other. We believe that such stakeholder-based coordination and guidance is essential to ensuring the strongest possible results in this proceeding. We do not believe that the need for such an advisory body is diminished by Energy Division oversight of some of the key foundational studies, nor the fact that the Energy Division, rather than the utilities, will be responsible for the further development of the cost-effectiveness calculator. The need for coordination, integration, and stakeholder input is independent of which entities are responsible for these studies.

Throughout this proceeding, the Commission has invited and encouraged parties to work together in a collaborative mode to address the challenges inherent in examining the potential for full-scale utility-sponsored water-energy conservation programs (*e.g.*,

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<sup>8</sup> PD at 33.

during the Prehearing Conference the Assigned Commissioner stated that “I believe this is another area where we can really work together and show leadership on how to be tackling this issue.”<sup>9</sup>). These challenges and the need for strong collaborative efforts are far from over; in fact, this coming Commission decision will mark the beginning of a new set of challenges, as the Energy Division and the utilities begin their formative work implementing the Commission-approved programs and studies. The Energy Division and the utilities would benefit by following closely and coordinating each others’ respective study efforts, and both the Energy Division and the utilities would benefit from the constructive participation of the active parties in this proceeding (DRA, TURN, and NRDC) as well as the relevant water agencies.

Such a collaborative advisory process, with a single advisory body addressing each of the study areas in an integrated manner, would improve coordination between the related study areas, inform the ongoing development of the utilities’ individual pilot programs, facilitate problem identification, add expertise, and enable the parties to travel the water-energy efficiency “learning curve” together and thereby build additional, collective expertise in this important new area of energy efficiency. In addition, as the Commission has found in previous collaborative efforts it has authorized, such an advisory body is also likely to enhance “buy-in” by each party along the way, which bodes well for efficient and effective Commission decision making and for maximizing the pursuit of cost-effective water-energy efficiency strategies. Such use of advisory bodies and stakeholder involvement is also consistent with the utilities’ other energy efficiency programs, where it has proved useful (e.g., Peer Review Groups; ad hoc

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<sup>9</sup> January 30, 2007 prehearing conference transcript at 3.



technical review committees that Energy Division may convene to assist in carrying out its ongoing evaluation, measurement, and verification responsibilities; and the more extensive strategic planning effort currently underway).

NRDC therefore recommends that the PD be modified to create a stakeholder advisory group for the Energy Division's two foundational studies and the further development of the cost-effectiveness calculator, as well as for the utilities' various approved studies, most notably its load profile study. In addition to focusing on the studies, this advisory group should also advise on how the studies might better inform the designs of the utilities' pilot programs, and *vice versa*. In addition to participation by the Energy Division and the utilities, all other parties to this proceeding should be invited to join and consideration should be given to inviting other stakeholders, such as the relevant water agencies, to join.

At this point, NRDC does not have a specific advisory group structure and process in mind, since this decision is better made in consultation with the Commission and other parties. The advisory group need not have the decision-making authority of the Blue Ribbon Panel that the utilities propose in their Q&A Set. NRDC believes that it is sufficient for the stakeholder group's role to be purely advisory, thereby keeping the utilities' and the Energy Division's respective responsibilities fully intact. As part of the final decision, the Commission should direct the Energy Division to convene a meeting to begin the advisory group formation process and afterwards to report back to the Commission with its specific structure and process recommendations. Assuming the Commission decides to create this advisory body, the PD should also be modified to keep the proceeding open in order to administer the advisory group process.

### **III. The Utilities' Q&A Set Should Be Used as a Starting Point for the Development of a Roadmap to Guide the Implementation of the Foundational Studies.**

In its April 23, 2007 Assigned Commissioner Scoping Memo and Ruling (“ACR”) the Commission asked parties to comment on the utilities’ set of questions and answers (“Q&A set”), which are contained in Appendix A of the PD. Part of the Commission’s request was to indicate whether the utilities should be obligated to “adequately address” the Q&A set.<sup>10</sup> In its July 18, 2007 comments NRDC indicated that the Q&A set indeed would be useful as an initial guide to the conduct of the foundational studies and for helping to link the studies with the individual pilot programs, and that the utilities should, in fact, be obligated to adequately address these questions, while also giving the utilities’ proposed Blue Ribbon Panel some discretion to make improvements to the Q&A set.<sup>11</sup> No other party addressed this issue and no party has objected to NRDC’s recommendations.

Despite the fact that the PD gives the Energy Division responsibility for much of what the utilities had proposed to address in their Water-Energy Study, there is still merit in using the utilities’ Q&A as a starting point to help guide the foundational studies, which include all the utilities’ studies approved in the PD, the new studies to be conducted by the Energy Division, and the further development of the cost-effectiveness calculator.

The PD expresses concern about whether the utilities’ proposed pilot programs in fact would adequately address the questions in the Q&A set, which is evidently why the PD declines to approve certain of the utilities’ proposed studies and orders that the

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<sup>10</sup> April 23, 2007 ACR at 18.

<sup>11</sup> July 18, 2007 NRDC Comments at 10-11.

Energy Division take responsibility for much of this foundational work. Regarding the Q&A set itself, however, the PD assesses it favorably (“The utilities have set forth many questions that are important to answer before moving beyond a pilot program to implement ongoing waster conservation programs.”<sup>12</sup>), in effect drawing on the questions developed by the utilities to inform the design of the two new foundational studies that will be undertaken by the Energy Division. NRDC shares the Commission’s regard for the value of the Q&A set, and urges the Commission to direct that it be used as a starting point to help guide the conduct of the foundational studies. Assuming the Commission agrees with NRDC’s recommendation to create a stakeholder advisory group, NRDC further recommends that this group be directed to utilize the Q&A set in its advisory role and also to identify recommended additions and improvements in the course of its advisory responsibilities.

**IV. The PD Should be Modified to Clarify that the Commission’s Policy and Legal Requirement is to Pursue All Cost-Effective Energy Efficiency Savings.**

In the discussion portion of the PD, the Commission states that “Our commitment – and legal requirement – are to pursue all cost-effective energy efficiency savings.”<sup>13</sup>

This statement is consistent with the Commission’s current Energy Efficiency Policy Manual, which states variously:

...cost-effective energy efficiency should be first in the loading order of resources used by utilities to meet their customers’ energy service needs;<sup>14</sup>

The Commission’s overriding goal guiding its energy efficiency efforts is to pursue all cost-effective energy efficiency opportunities over both the short- and

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<sup>12</sup> PD at 35.

<sup>13</sup> PD at 30.

<sup>14</sup> Energy Efficiency Policy Manual for Post-2005 Programs, Version 3, as adopted by D.05-04-051; at 2 (Rule II.1).

long-term.<sup>15</sup>

A prospective showing of cost-effectiveness using the Dual-Test for the *entire* portfolio of ratepayer-funded energy efficiency activities and programs is a threshold condition for eligibility for ratepayer funds. This threshold requirement applies to each of the following: (1) the entire statewide portfolio of programs and (2) the service-territory wide program portfolios offered by each Program Administrator, excluding emerging technologies programs.<sup>16</sup> [emphasis added]

The clear and consistent meaning of all of these statements is that utilities should strive to secure *all* cost-effective energy efficiency savings, and that the utilities' energy efficiency portfolios *as a whole* should be cost-effective. Unfortunately, in one of the PD's ordering paragraphs, this commitment and legal responsibility are not stated so clearly. Ordering Paragraph 1 reads as follows:

The Commission is dedicated to incorporating water conservation strategies in the utilities' energy efficiency programs to the extent that such strategies *improve* the overall cost-effectiveness of the energy efficiency programs. [emphasis added to original]

This ordering paragraph, taken literally, appears to say that such strategies should be pursued only if they *improve* the cost-effectiveness ratio of the overall utility energy efficiency programs. According to this condition it could be reasonably interpreted that a water-energy efficiency measure or program would qualify for Commission approval only if its implementation *increased* the cost effectiveness ratio of a utility's overall energy efficiency portfolio. As cited above, however, the test for the overall portfolio, and even for individual measures or programs, is simply that it must be cost effective, not that it must be more cost-effective than some other energy efficiency measure or program or grouping of same. In order to make this ordering paragraph consistent with the Commission's overarching energy efficiency policy and legal requirement, NRDC

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<sup>15</sup> *Id.* (Rule II.2).

<sup>16</sup> *Id.* at 7 (Rule IV.6).

therefore recommends that Ordering Paragraph #1 be revised to read as follows:

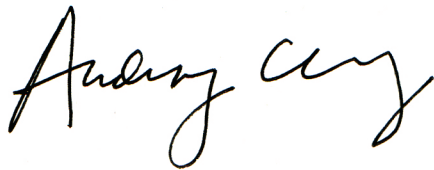
The Commission is dedicated to incorporating water conservation strategies in the utilities' energy efficiency programs to the extent that such strategies increase the amount of cost-effective energy efficiency savings. ~~improve the overall cost-effectiveness of the energy efficiency programs.~~

## **V. Conclusion**

NRDC supports adoption of the PD with the recommended changes described above. Notwithstanding this, NRDC reserves the right to offer additional comments on the PD's changes to the utilities' applications once the sponsoring utilities have had an opportunity to respond to these changes. NRDC looks forward to continuing to work with the Commission, the utilities, and other parties and stakeholders to develop the strongest possible basis for determining the future scope and scale of this promising new energy efficiency area.

Dated: December 5, 2007

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Audrey Chang". The signature is fluid and cursive, with the first name "Audrey" written in a larger, more prominent script than the last name "Chang".

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## APPENDIX

### Recommended Changes to Findings of Fact, Conclusions of Law, and Ordering Paragraphs (new language in underline format; deleted language in strikethrough format)

#### New Findings of Fact

- It would be valuable for parties to this proceeding as well as other stakeholders to serve in an advisory and coordinating capacity on studies that will be conducted pursuant to this decision.
- The question and answer set proposed by the utilities and included in Appendix A to this decision sets forth many questions that are important to answer before moving beyond a pilot program to implement ongoing water-energy efficiency programs.

#### New Conclusions of Law

- A Commission-authorized stakeholder advisory group should advise on, coordinate, and integrate the various studies approved in this decision as well as the Energy Division's further development of the cost-effectiveness calculator.
- The utilities' question and answer set, included in this decision as Appendix A, should be used as one of the bases for guiding the development of the studies approved in this decision.

#### New and Modified Ordering Paragraphs

##### **Modified:**

Modified Ordering Paragraph #1: The Commission is dedicated to incorporating water conservation strategies in the utilities' energy efficiency programs to the extent that such strategies increase the amount of cost-effective energy efficiency savings. ~~Improve the overall cost-effectiveness of the energy efficiency programs.~~

Modified Ordering Paragraph #9: The consolidated proceedings remain open for the purpose of administering the advisory group process authorized in this decision .~~are~~  
~~closed~~

**New:**

- The Energy Division shall invite parties to this proceeding and other stakeholders as it sees fit to join an advisory group authorized to advise and assist in the implementation of the various studies approved in this decision, including the further development of the cost-effectiveness calculator, and in the coordination and integration of the various studies and the utilities' approved pilot programs. Upon convening this advisory body, the Energy Division shall first work with its members to develop a proposed structure and process for the Commission's consideration by which the group would support the development and implementation of the studies.
- The Energy Division, the utilities, and the stakeholder advisory group created in this decision shall use the utilities' question and answer set included in Appendix A to this decision as an initial guide for finalizing the designs and informing the implementation of the studies approved in this decision.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **“COMMENTS OF THE NATURAL RESOURCES DEFENSE COUNCIL (NRDC) ON THE PROPOSED ‘ORDER APPROVING PILOT WATER CONSERVATION PROGRAMS WITHIN THE ENERGY UTILITIES’ ENERGY EFFICIENCY PROGRAMS”** in the matter of A. 07-01-024 *et al.* to all known parties of record in this proceeding by delivering a copy via email or by mailing a copy properly addressed with first class postage prepaid.

Executed on December 5, 2007 at San Francisco, California.



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